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SUBJECT: KAZAKHSTAN: CHANGES AND CHARGES AT KAZATOMPROM

REF: (A) ASTANA 0209  
(B) ASTANA 0677

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On May 21, former Minister for Industry and Trade Vladimir Shkolnik replaced Mukhtar Dzhakishev as head of the state-owned nuclear company Kazatomprom (KAP). On May 22, the 45-year old Dzhakishev was arrested on embezzlement and corruption charges, which members of the opposition denounced as politically motivated and likely to damage Kazakhstan's investment climate. Dzhakishev had a close relationship with ousted BTA bank head Mukhtar Ablyazov, and was childhood friends with President Nazarbayev's estranged former son-in-law, Rakhat Aliyev. The 60-year old Shkolnik is a nuclear physicist and president of the Nuclear Society of Kazakhstan, who served previously as Deputy Prime Minister and Minister of Energy and Mineral Resources. END SUMMARY.

KNB ARRESTS DZHAKISHEV AND OTHER TOP LEADERS

13. (U) On May 21, Dzhakishev was replaced by former Minister of Industry and Trade Shkolnik as president of Kazatomprom. The day after his dismissal, Dzhakishev was arrested, along with KAP vice presidents Dmitriy Parfenov (finance), Askar Kassabekov (uranium extraction), Malkhaz Tsotsoriya (strategic development), and Baurzhan Ibrayev. The Committee for National Security (KNB) also arrested the presidents of two KAP subsidiaries: Nurlan Mussin, head of the Ulba Metallurgical Plant, and Eshmurat Pirmatov, head of the Stepnogorsk Mining and Chemical Plant. Of KAP's top seven managers, only two have not been detained, vice presidents Sergei Yashin and Nartay Dutbayev, the latter a former KNB chief. On June 2, Dzhakishev's lawyer, Daniyar Kanafin, said he did not know where his client was being held, nor on what charges. "The transactions being reviewed by the KNB were transparent," he said. "We would like to have access to the case file, and we question the legality of conducting the investigation in secret."

14. (U) On June 1, the KNB accused Dzhakishev of illegally transferring more than 60 percent of the state's uranium assets to offshore companies. According to KNB spokesman Kenzhebulat Beknazarov, "Mukhtar Dzhakishev and other top managers abused their authority and caused damage to the state through the sale of state shares in several major uranium fields. From 2004-07, they allegedly sold state shares in these uranium companies for the benefit of a number of private, offshore companies." The KNB charged that Dzhakishev registered a company called Ken Dala KZ in 2005, which later received a uranium production license for the Tsentralnyi (Central) section of the Mynkuduk field in Kyzylorda oblast, at no cost. Also in 2005, according to the KNB, Kazatomprom sold a 30 percent share in Kyzylkum LLP (Kyzylorda oblast), to another offshore company for "the mere sum of 15.6 million tenge" (approximately \$130,000 at the time).

DZHAKISHEV HAD TIES TO ABLYAZOV...

15. (U) The Procurator General's Office launched its investigation on April 17, following accusations by ex-Mazhilis deputy Tatyana Kvyatkovskaya. Kvyatkovskaya, now a member of the ruling Nur Otan party, said at a press conference on April 1 that Dzhakishev collaborated with former BTA bank chairman Mukhtar Ablyazov to sell state shares in key uranium mines such as Akdala, South Inkai, and Khorasan "for nothing." Ablyazov fled the country in February and embezzlement charges were brought against him in March. Kvyatkovskaya alleged that the uranium mines were sold to Ablyazov's company Betpak Dala LLP, which was run by Rifat Rizoyev, a business associate of Ablyazov's who is also under investigation by the authorities in connection with the BTA bank case. "As a result of these schemes," she said, "Kazakhstan now owns only 23 percent of the country's uranium fields." Kvyatkovskaya made similar accusations two years ago, but an investigation at that time did not

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lead to an indictment.

... AND RAKHAT ALIYEV

16. (U) In a radio interview on May 19, Dzhakishev refused to address comments made by President Nazarbayev's former son-in-law, Rakhat Aliyev, who claimed that Nazarbayev's family holds a stake in Kazatomprom. "It is immoral to make comments about someone (Aliyev) whom I have known ever since kindergarten," he said. Independent political analyst Dossym Satpayev nevertheless links Dzhakishev's arrest to his close affiliation with Aliyev and Ablyazov. He noted that Dzhakishev and Ablyazov were close friends who studied together and were roommates. Rakhat Aliyev on his personal website calls Dzhakishev, "a political detainee of Nazarbayev's regime." Aliyev claims that, "Nazarbayev did not forget that when Ablyazov was charged back in 2002, Dzhakishev tried to defend him. He has not forgotten that Dzhakishev was my friend too. And most importantly, Mukhtar (Dzhakishev) was a personal witness to Nazarbayev's machinations."

DZHAKISHEV DISMISSES "ABSURD" ALLEGATIONS

17. (U) On April 2, Dzhakishev told the opposition "Svoboda Slova" newspaper that, "Kvyatkovskaya's accusations that I am giving away state resources are total nonsense and show her incompetence in legal matters." He suggested that she was acting on someone else's behalf in making such "absurd allegations." Samarokov and Galym Nazarov, Director of KAP Treasury, told Vremya on May 26-27 that in exchange for a share in its uranium mines, KAP received advanced technology from Japanese, Canadian, and French partners, which they said was "much more valuable than money."

KNB DENIES POLITICAL MOTIVE

18. (U) On June 1, KNB spokesman Beknazarov said, "The KNB denies that there is any political motivation behind this case." He dismissed claims that Dzhakishev's arrest was "triggered by some sort of political instruction to persecute Dzhakishev for his former ties with Rakhat Aliyev and Mukhtar Ablyazov" and insisted that the

investigation is being conducted "in strict compliance with the Constitution and the law, under the close supervision of the Procurator General's Office." Beknazarov also announced that the trial would be open to the public.

#### PROMINENT POLITICIANS AND BUSINESSMEN SUPPORT DZHAKISHEV

¶9. (U) On May 25, opposition leaders Vladimir Kozlov of the unregistered Alga party and Serikbolsyn Abdildin of the Communist party said that Dzhakishev's arrest is part of a plan to transfer the country's assets to "the Family" -- referring to the family of President Nazarbayev. (COMMENT: Alga is, in fact, financed by ousted BTA bank head Ablyazov. END COMMENT.) They compared the nighttime searches and arrests of KAP's top managers to the old Soviet methods used by the NKVD (i.e. the secret police) in the 1930s. On May 26, Azat opposition party leader Bulat Abilov told reporters that Dzhakishev's arrest would have an adverse affect on Kazakhstan's international image. On May 28, dozens of prominent Kazakhstani businessmen, including Forum of Entrepreneurs President Raimbek Battalov, Kazkommertsbank Chairman Nurzhan Sukhbanberdin, and Astana Motors President Nurlan Smagulov, published an open letter to President Nazarbayev in defense of Dzhakishev in "Svoboda Slova." "His arrest is inexplicable and negatively affects the country's business climate, as Kazakhstani entrepreneurs will no longer feel they are protected by the rule of law," they wrote.

#### DZHAKISHEV PRAISED AS AN EFFECTIVE LEADER AND MANAGER

¶10. (U) KAP's Nazarov defended Dzhakishev in an interview with the newspaper "Vremya" on May 26. "When he arrived," said Nazarov, "the company was near bankruptcy." At the time, KAP was producing only 890 tons of uranium per year, and KAP's debts to banks, suppliers, and employees were equal to its revenues. Nazarov said that KAP subsidiaries were paying employees' salaries in food stamps.

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"Dzhakishev created a world leader out of a bankrupt company," he asserted. In response to allegations that Dzhakishev was merely lucky because he arrived at the company just before an increase in uranium prices, Nazarov said that when Dzhakishev joined KAP, one kilogram of uranium cost slightly more than \$6, whereas now the price is \$165. According to Nazarov, uranium production is capital intensive, and no bank in 1998 wanted to lend KAP money, so Dzhakishev personally visited dozens of foreign banks, looking for loans. Thanks to Dzhakishev, Nazarov said, Kazatomprom borrowed money at a low interest rate, cleared its bank debts in six months, paid employees' salaries on time, dramatically increased uranium production, and began to move the company up the value chain toward fuel cycle products.

#### SHKOLNIK PROMISES TO CONDUCT BUSINESS AS USUAL

¶11. (SBU) On May 25, KAP's new president, Vladimir Shkolnik, told senior staff that President Nazarbayev considers the nuclear sector "just as important" to Kazakhstan's strategic development as the oil and gas sector. He stressed that all existing strategic plans, commitments, and obligations would be honored and implemented. The 60-year old Shkolnik graduated from Moscow's Engineering and Physics Institute and worked for 20 years at the Mangistau Atomic Energy Complex, first as an engineer at the BN-350 plutonium breeder reactor, and ultimately as deputy director. He also served as General Director of Kazakhstan's Atomic Energy Agency, President of the Academy of Sciences, Deputy Prime Minister, Deputy Head of the Presidential Administration, Minister of Energy and Mineral Resources, and Minister of Industry and Trade. He possesses a rare combination of technical expertise, ministerial experience, and presidential confidence, which likely made the decision to replace Dzhakishev easier than it would have been otherwise. Shkolnik also has close ties to Russia's nuclear company Rosatom -- his daughter is married to one of Rosatom's top managers. On May 27, Rosatom president Sergei Kiriyenko said, "Shkolnik is a competent professional with vast political experience and expertise in nuclear energy. He is held in high regard by nuclear energy specialists in both Russia and Kazakhstan."

¶12. (SBU) COMMENT: There is much speculation and rumor surrounding

the arrest of Mukhtar Dzhakishev, once a shining example of homegrown talent. It is likely that his previous ties to Ablyazov finally caught up with him. Dzhakishev's arrest also comes as President Nazarbayev has launched a high-profile, anti-corruption campaign (ref B) -- which some see as targeting officials who have gone too far with their corruption, and others believe is a means for rival clans to settle scores. On June 2, the Ambassador asked another Western Ambassador, whose country has significant interests in mining Kazakhstan's uranium, if the rumors of Dzhakishev's corruption might be true. The answer? "Well, of course." It is unclear what Dzhakishev's dismissal will mean for Kazatomprom. He was undoubtedly a vocal, strident, and forceful leader, unafraid to make deals with foreign partners while pushing the company to add value and achieve ambitious production targets. Shkolnik, while clearly capable, may be less aggressive, and less public, in his approach. Dzhakishev's arrest has also created anxiety among KAP's many joint venture partners, including companies from Canada, France, and Japan. There is a risk that the ongoing KNB investigation into KAP's joint ventures will call into question the legitimacy of existing uranium mining contracts and perhaps adversely affect the overall investment climate. In fact, on June 2, the Samruk-Kazyna National Welfare Fund announced that it will begin to review all previous transactions involving the sale of state assets to joint-venture companies. The first companies to be audited will be national railway operator Temir Zholy and national oil company KazMunaiGas. END COMMENT.

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